

Mossberg's Investor Digest

Best Idea Profile:

DESCRIPTION:

Headquartered in Denver, Colorado; Credo and its wholly owned subsidiaries, SECO Energy Corporation and United Oil Corporation are Denver-based independent oil and gas companies which engage primarily in oil and gas exploration, development and production activities. The company has operating activities in nine states including Kansas, Wyoming, Colorado, Oklahoma and Texas. Credo is focused on adding oil and gas reserves through drilling and by the use of the company's patented fluid lift technology known as the Calliope Gas Recovery System™.

KEY INVESTMENT CONSIDERATIONS:

Significant Reserves – Credo is a seasoned operator with significant reserves. The company is currently carrying over \$87 million in evaluated and \$9.9 million (at cost) in unevaluated, oil and gas reserves on its balance sheet.

Bakken Shale - Credo has assembled nearly 8,000 gross (6,000 net) acres of Bakken shale acreage. The property is located in the core of this energy play in what is now the largest oil deposit in North America. The property is primarily on the Fort Berthold Reservation in North Dakota and consists of 50 initial well spacing units. An unrelated transaction in the Bakken area last year would equate to a valuation of \$11,000 per acre for Credo's properties. The company's current estimates of Net Reserves in this area include 4.2 Million Bbls and 3.6 Bcf for the Bakken holdings.

Strategic Positioning – Credo, which had primarily been a natural gas producer, decided to reposition the company's focus in 2008 by building oil reserves and oil production. The timing of this decision and timely reserve purchases have strategically positioned the company to benefit from higher oil prices. Wellhead oil prices for Credo increased 38% in FY2010.

Calliope – Credo has developed a patented in-house recovery method for natural gas known as "Calliope". This proprietary technology has proven economic viability and gives the company a competitive edge to enhance natural gas production, especially from older properties.

Revenue Growth and Cash Flow – Oil and gas revenues are increasing. Q1FY2011 revenues were \$3,250,000 compared to \$3,142,000 during the same period last year. Q1 results also produced \$2.3 million in cash flow from operations.

Credo Petroleum Corporation (Nasdaq:CRED)

Diversification – Credo continues to strategically pursue oil reserves and production. During FY2010 oil reserves increased 9% and account for 29% of the company's total reserves. The revenue mix for Q1FY2011 was 69% oil and 31% gas. The development of the company's oil reserves will continue to drive revenues in an environment of upward price trends for oil. The "Calliope" gas recovery method gives Credo a distinct price advantage in natural gas recovery activities. Low natural gas prices may result in more mature properties on the market that Credo can acquire at favorable prices for long term development.

Inflection Point – Credo has experienced 2 years of strategic transition and a 27% drop in realized natural gas revenues in FY2010. Yet the company has returned to profitability and reported \$0.22 in FY2010 vs. \$(1.40) loss in FY2009 (\$0.06 after adjusting for an impairment charge). The company is clearly at an inflection point.

VALUATION:

Credo has assets that have long-term value in excess of the company's current market cap. At 11,000 per acre the company's 6000 net acres in Bakken alone are worth 65% of the Credos market cap. The company currently has no active Wall Street research coverage. Both improving fundamentals and more attention from investors may lead to higher share prices.

Credo Petroleum Corp (Nasdaq: CRED)

Investment Data (as of 4/25/11)

Recent Price	\$10.18
52-Week Range	\$7.02 - \$14.95
Fiscal Year End	Oct
Dividend	NA
Yield	NA
Shares Outstanding	10 MM
Average Trading Volume (3 mos)	26k
Market Capitalization	\$102MM
Cash	\$9MM
Long Term Debt	NA
Enterprise Value (EV)	\$95MM
BV/ Share	\$4.64
TTM Revenue	\$12MM
P/ Revenue	9x
TTM EPS	\$0.18
P/ EPS	57x
TTM EBITDA	\$5.9B
EV/ EBITDA	16x

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